HOUSING MARKET OUTLOOK

Ottawa

Canada Mortgage and Housing Corporation

www.cmhc.ca

ISSUE:
SPRING 2005

Resale Market

Supply of homes continues to climb

In 2004, total sales in Ottawa reached 13,457 transactions, the highest ever recorded by the Ottawa Real Estate Board. The question for 2005 is whether that momentum can be maintained. The most current sales information from MLS reveals that the market peaked last year and conditions are such that the market is pulling back from last year's feverish pace.

Demand for housing so far this year has retreated somewhat, as a result of weaker than expected job growth last year. In addition, the anticipation that mortgage rates were going to rise last year may have also prompted many potential buyers to get off the fence then to buy a home, thereby taking away from potential demand this year. In the first three months of this year, sales are lagging by 11 per cent compared to the same period in 2004. The resale market in Ottawa has definitely turned a corner, and we expect softer market conditions ahead in 2005. CMHC expects that sales will pull back to about 12,600 transactions, still above the average for this area but a decrease of 6 per cent from the level achieved in 2004.

While sales have pulled back from their feverish pace of 2004, listings in the housing market continue to rise. Since 2001, the number of homes listed on the market has continued to grow steadily, but sellers market conditions prevailed because very strong sales offset rising listings. Now, the number of listing has grown to the point that the current level of sales can no longer maintain that type of market condition. From January to March of 2005, listings are up by 6 per cent to 5,911 units compared to the same period in 2004. On a SAAR basis, listings as of March were pointing to an estimated 23,300 units to be achieved by the end of this year if the current trend continues; at this level, listings are the highest they have been in 11 years for Ottawa.

This scenario of rising supply in face of softer sales means the market conditions are headed to balanced market territory. The sales-to-new listings ratio seasonally adjusted, a measure of demand over supply, is 51 per cent in March and 55 per cent for the first quarter of 2005. This places

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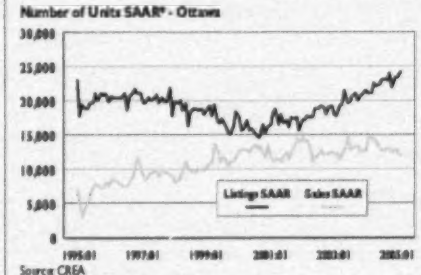
FORECAST SUMMARY

Sales and New Listings



Source: CREA
* Seasonally Adjusted at an Annual Rate

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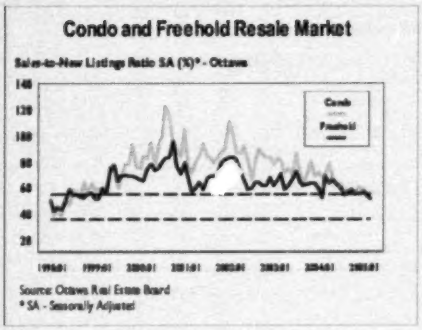

Condo and Freehold Resale Market
Sale-to-New Listings Ratio SA (%)* - Ottawa
Condo
Freehold
Source: Ottawa Real Estate Board
* SA - Seasonally Adjusted

the Ottawa market just in a **balanced market**. Consequently, we can continue to expect sustained price growth; CMHC's forecast is for the average MLS price will grow by over four per cent in 2005 to about $248,000. This translates into price growth above the current Canadian inflation rate.

Freehold and Condo Market both headed to Balanced Markets

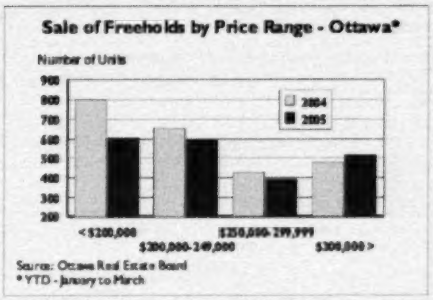
Comparing the performance of the freehold market, which includes the sale of all owner-occupied homes minus condos, and the condo market by itself reveals the freehold market is already in balanced market territory as of March 2005. In the freehold market, sales continued to decline on a year-over-year basis for the last five months with a coinciding increase in listings. The seasonally adjusted sales-to-new listings ratio has been trending down and was just over 50 per cent in March, well into a balanced market. Consequently, price growth for this particular sector of the resale market will be steady but not as strong as last year. As of March, the average MLS price for freeholds was running at about 5 per cent ahead of last year during the same period.

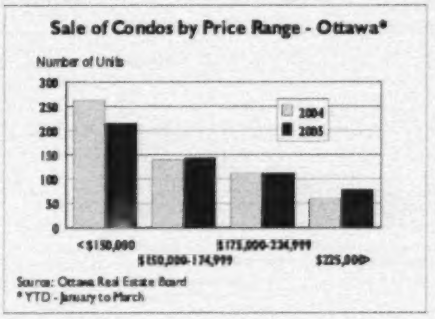
In the Condo market, seller's market conditions continued despite the fact the sales-to-new listings ratio has been trending down as well. As of March, the ratio seasonally adjusted was 55 per cent and still presenting tighter conditions that the freehold market. Though listings have gone up in the market as well, it is the stronger sales performance of condos that keep this market ahead of freeholds. Comparing the first quarter sales for freeholds and condos, the former is down by 10 per cent while the latter is down by only 3 per cent. As condos are becoming more popular because of lifestyle choices for an aging population and their affordability to families, it is not surprising that demand for condos has not retreated as fast as the rest of the market.

Demand still has momentum

A good indication of how affordable it is to buy can be identified through the carrying cost of supporting a mortgage at current price levels in a market. When we adjust the carrying cost of a mortgage (principal and interest) in real dollars (2004), the cost is still cheaper than it was back in 1995. Low mortgage rates are still a main driver in this marker, making home ownership an attractive option for first-time home buyers and for move-up buyers to consider larger and more expensive homes.

Another key indication of market demand is the sale of homes at higher price levels. While sales are down overall, the demand for higher priced homes in the Freehold market ($500,000 and up) are ahead of least year comparing the first three months of the year. If current prices were unsustainable, we would begin to see declines in sale of homes priced at the higher-end of the market. So far this year, there is no indication that this is the case. Move-up buyers continue to be a factor in this market, driving demand for larger and more expensive homes.





On the flip side, there is evidence that the demand for affordable priced accommodations is also growing. While sales are down in the middle price range of the freehold market, the condo market continues to enjoy equivalent or higher sales in the middle and higher price ranges. The lower cost of condos could be a driver for the sale of such units. For both market, sales in the lower prices ranges are disappearing fast, due primarily to the shift in price ranges of homes and evidence it will be harder to find a freehold home priced below $200,000 unless one goes over to the condo market. Nonetheless, rising prices have not stopped those seeking home ownership, particularly first-time buyers, froomconsidering other affordable options on the market, such as the condo market and townhouses.

Real MLS Price and Carrying Costs - Ottawa
P & I (Carrying Costs) $*
MLS Price in Thousands ($)
Real P & I SA
Real Price SA
Source: CREA, Bank of Canada, Statistics Canada
* Using Avg. Monthly MLS Price, 10% down, 5 year mortgage rate, amor. 25 yrs
SA - Seasonally Adjusted and changed to 2004 ($)

New Home Market

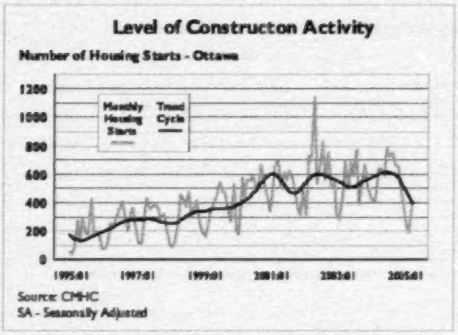
Slowdown in residential construction

Rising listings in the resale market are impacting demand for new homes in Ottawa, as consumers have now been afforded more choice than ever for homes. In addition, considering the price gap between a new home and its equivalent in the resale market, it is not surprising that demand for new homes has slipped so far in 2005 and construction activity has dropped off accordingly.

Construction activity in the first three months of 2005 reveals a decrease of over a third from the same period in 2004, and now sits at 821 new residential units. In the month of March alone, housing starts were down by a half compared to March of last year. This sharp first quarter decline was not unexpected, as CMHC already had forecast that housing construction would fall back as listing in the resale market continued to rise in face of slowing demand.

Most of the decline in housing construction took place in the multiple-family market. From January to March of this year, starts are down by 36 per cent compared to the same period a year ago. Declines in townhouse and apartment construction were the main factors for the fall in multi-family starts; in terms of apartment construction, there has not been any new rental construction so far, while apartment condo construction has declined by 24 per cent in the first three months of this year. Townhouse construction for owner-occupied homes is down by over 50 per cent. Surprisingly, the only multi-family market doing well is the condo townhouse market, where starts are up by 75 per cent so far this year and now stand at 131 new units.

Single-detached construction has declined by over 32 per cent in the first quarter of 2005 and now stands at 266 units. The fall in construction here has not been as pronounced as in the multi-family market. Along with rising listings impacting this market, the cost associated with buying a new home continues to climb higher. As of March of 2005, the average price for a new home was $342,800;



Potential Housing Renovation Demand in Ottawa

CMHC's recently-released *2004 Report on Consumers' Buying or Renovating Intentions* found that 60 per cent of Ottawa-area respondents had spent at least $1,000 on home renovations in the past 12 months and that a further three quarters cited a "high" probability of renovating in the following 12 months.

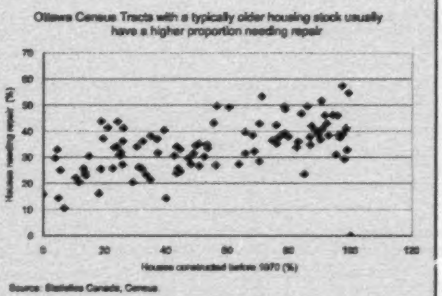
The 2001 Census reported that 32.9 per cent of Ottawa respondents said their homes required either "major" or "minor" repairs, on par with an average of about 32 per cent among both Ontario and Canadian Census Metropolitan Areas. Locally, just under 103,000 dwellings fell into this category.

Not surprisingly, average dwelling age seems the most important statistical determinant of dwelling repair needs. For instance, under half of Abbotsford, B.C.'s dwellings were constructed before 1980 and only 28 per cent required repair. By contrast, three-quarters of homes in Saint John N.B. were "pre-1980" and 39 per cent needed fix-up.

Higher repair needs were also found in Census Metropolitan Areas with greater short-term mobility. After statistically controlling for dwelling age, a one percentage point increase in the proportion of residents who had moved in the past year was associated with a three-quarter percentage point rise in the proportion of dwellings requiring repair. This may reflect new occupants' desire to personalize their homes.

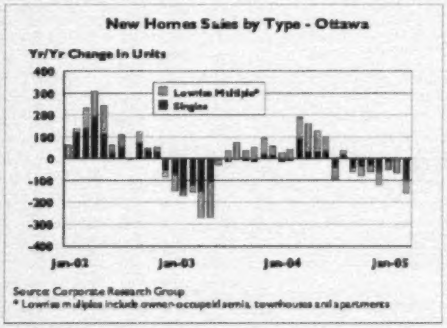
In Ottawa, six of the ten oldest Census Tracts, measured by the proportion of dwellings completed before 1970, were between Island Park Drive and Vanier, mainly north of the Queensway. In these areas, roughly 97 per cent of homes were of pre-1970 vintage and about 44 per cent required repair. Of course, inability to afford repairs frequently leads to living in a dwelling that requires repair. In these six neighbourhoods, roughly 27 per cent of respondents were "low income" by Census standards, well above Ottawa's 18 per cent average. Meanwhile, other areas exhibited a high proportion of dwellings in need of repair but in conjunction with higher income levels as well. For example, north of Glebe and First Avenue, where nearly 52 per cent of dwellings required repair, had fewer than seven per cent "low income", or the southern New Edinburgh area, where about half of dwellings required repair, but under ten per cent of their occupants were "low income".

In contrast with city-to-city comparisons, Ottawa areas with more long-time residents have higher proportion of dwellings in need of repair. The Census identifies persons who lived elsewhere five years earlier. A relatively high 39 per cent of dwellings in the 10 Ottawa Census Tracts with the lowest such "five-year mobility" were said to need either major or minor repairs.



this would be the average price of all housing types combined, such as bungalows and two storey homes. Comparing the year-to-date MLS average price, $244,600, with that of the new home market, it is not surprising that many potential home buyers may turn to the resale market before they consider buying new.

While the cost of building homes continues to be a major cause of higher new home prices, examining the land component of New Home



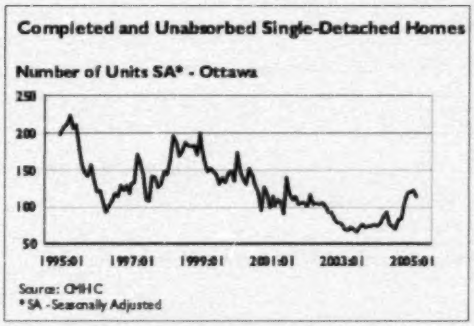
Price Index shows that the cost of land has grown higher. In 2004, the index for land grew almost 7 per cent compared to the building component which grew by 6 per cent annually. Clearly, the cost of land in Ottawa is increasingly becoming a major factor in the rising costs of a new home.

With more supply of homes on the market and rising price gap between resale and new homes, it is not surprising that residential construction levels will decline in 2005. CMHC expects total home construction to decline by 14 per cent in 2005 to about 6,200 housing stars by the end of the year. Single-family construction is expected to decline to 2,800 starts this year. A careful look at new home sales points to continued decline in home construction. To date, sales have declined by 18 per cent year-to-date compared to the same period in 2004, and reveals that construction activity in the residential market will continue to fall in 2005.

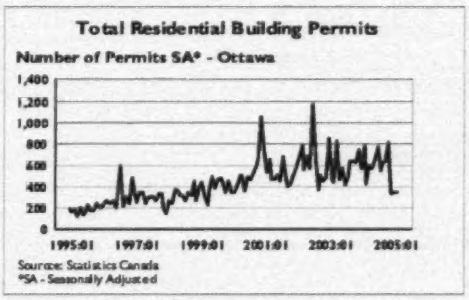
Price range of new single-detached homes and absorption rates

According the most current estimate from CMHC's absorption survey, the proportion of new homes absorbed between $300,000 and $399,999 increased to 57 per cent in the first three months of this year compared to 46 per cent in the same time last year. The proportions of homes priced above $400,000 grew to 15 per cent year-to-date in comparison to 13 per cent during the same period in 2004. There is still demand for higher end homes, and, consequently, home prices continue to shift higher in this market. Only 6 per cent of the new homes absorbed this year were less than $250,000, which is about the average price for a resale home currently.

The number of unabsorbed new units in the housing market is causing builders to cut production. By the end of 2004, the number of homes built and unoccupied had increased to a 10-year high; however, the slow down in



construction has already pushed unabsorped unit level down by March of 2005 and the current rate of construction should bring the level where they were last year. The most positive aspect about Ottawa's housing market is the fact that builders are more careful about the number of homes built and no excess supply from the new home



market is expected to offset current supply levels and bring the total number of homes available (both resale and new) even higher.

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Economic Overview

Modest job growth expected in 2005

After a surge of over 6,000 new public sector jobs in Ottawa last year, employment levels in this sector are expected to decrease slightly in 2005. When the Federal Government tabled its budget in February 2005, improving operational efficiencies through a restructured public service was listed as a priority. The centrepiece of the restructured civil service is to create "one-stop shopping" centres that will deliver federal government services. This entails more of an elimination of unneeded office space as opposed to actual lay-offs. According to the Ottawa Business Journal, this would save the Federal Government $2.5 billion and would take over 3 years to implement and amounts to reshuffling individuals in existing positions; in the meantime, government estimates are that about 1,000 jobs will be lost to other regions of the country. This number is not as high as previously expected and would not really impact negatively on the Ottawa economy.

The high tech sector of Ottawa is showing signs of recovery this year. In 2004, the number of people employed in manufacturing remained unchanged at around 29,500 in the Ottawa area, according to estimates from Statistics Canada's Labour Force Survey. The most recent estimate up to March of 2005 shows that the manufacturing sector has employment levels increasing by 10,000 as of March and many of them are in the high tech sector. Though it is still too early in the year to qualify these as job gains, it does signal that this particular sparkplug of the Ottawa economy is starting to fire again.

There are some underlying factors to consider when speculating on a high tech turn around. According to Ottawa Centre for Research and Innovation (OCRI), the number of new high tech companies has grown by 6 per cent in the last six months to 1,688 companies. In terms of investment, the amount of venture capital acquired by high tech firms in the first four months of 2005 is $51.7 million, higher than the same period a year ago and indicative that investment in the industry is beginning to turn around.

With the decrease in residential starts expected for the rest of 2005, employment levels in the construction sector will continue to decline. The number of non-residential permits has grown, suggesting commercial and institutional projects will keep this industry going but not at current employment levels. The most notable commercial project this year is the expansion of Ottawa's Go-Train.

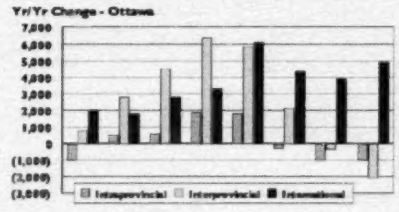
Net Migration continues to be positive

While migration levels have retreated in recent years in conjunction with the slowdown in high tech manufacturing, Ottawa continues to record net positive migration. The main reason is the increasing proportion of international migrants that make Ottawa their home.

Estimates from Statistics Canada reveal that Ottawa loses population to other parts of Ontario and Canada, but makes up for that loss in immigration. In fact, international in-migration is the highest it has been in 3 years, at around 4,800 immigrants in 2004. This may be due to family unification from previous international migration during the high tech boom, but may also signal that opportunities in that sector are once again drawing skilled workers from outside. These new residents will have an immediate positive impact on the rental market.

CMHC expects steady economic growth for Ottawa in 2005 that will translate into a modest rise in employment to about 468,000, an increase of just under two per cent. Most of the gains will be in full-time jobs, with growth in part-time employment expected as well, with gains in the service industry. Strong gains in manufacturing will keep wage earning up and income growth steady. With only a slight increase in mortgage rates expected this year and continued net migration to Ottawa, demand for housing will continue to be sustained this year. However, demand will not be as robust as in the last few years due to some job loss in the public sector and less domestic in-migration. Expect sales for existing homes to pull back from their recent strong pace in 2005 but still be above average for this area.

Immigrants are the major source of population growth



Source: Statistics Canada
Intraprovincial – net migration from within Ontario
Interprovincial – net migration from other provinces
International – net migration from outside of Canada

Mortgage rates will rise somewhat but remain low

Short-term mortgage rates move in tandem with the prime lending rate while mid- and long-term mortgage rates vary in response to the cost of raising funds in the bond markets.

Posted mortgage rates are forecast to rise moderately in 2005-06. However, tame inflation, a strong Canadian dollar vis-à-vis its U.S. counterpart, and slower economic growth in Canada will restrain the size and speed of Canadian interest and mortgage rate increases in 2005-06.

Mortgage rates are expected to remain low, rising by less than 50 basis points annually this year and next. One, three and five-year mortgage rates are forecast to be in the 4.50-5.50, 5.50-6.50, and 5.75-6.75 per cent range respectively in 2005.

FORECAST SUMMARY

Ottawa CMA Spring 2005

	2002	2003	2004	% chg.	2005F	% chg.
RESALE MARKET						
MLS Sales	12,894	12,877	13,457	4.5	12,600	-6.4
MLS Average Price, all units	$200,711	$219,713	$238,152	9.2	$248,600	4.4
MLS Average Price, Freehold Res.	$216,319	$232,922	$251,415	8.5	$265,200	5.5
MLS Average Price, Condo	$146,755	$164,590	$173,567	6.1	$179,600	3.5
Sales to New Listings Ratio	0.72	0.65	0.60	-	0.50	-
HOUSING STARTS						
Total	7,796	6,381	7,243	13.5	6,200	-14.4
Single-detached dwellings	3,807	3,055	3,245	6.2	2,800	-13.7
Semi-detached dwellings	316	357	348	-2.5	400	14.9
Row dwellings	1,972	2,241	2,450	9.3	2,000	-18.4
Apartment Dwellings - Total	1,701	728	1,200	64.8	1,000	-16.7
Apt. Condo	*747*	*197*	*1049*	*432.5*	*870*	*-17.1*
Apt. Rental	*924*	*511*	*146*	*-71.4*	*100*	*-31.5*
Other	*30*	*20*	*5*	*-75.0*	*30*	*500.0*
Average price, Single detached	$281,831	$305,923	$332,419	8.7	$355,700	7.0
RENTAL MARKET						
Vacancy Rate (October)*	1.9	2.9	3.9	-	3.5	-
Average Rent (2-bedroom)	$930	$932	$940	0.2	$945	0.5
ECONOMIC OVERVIEW						
Employed	438,800	460,300	459,300	-0.2	468,000	1.9
Employment Growth	-3,400	21,500	-1,000	-	8,700	-
Net Migration	7,800	4,200	1,400	-66.7	1,500	7.1

Sources: Ottawa Real Estate Board; The Corporate Research Group; Statistics Canada; Human Resources Development Canada; Canada Mortgage and Housing Corporation

The Ottawa Real Estate Board is an industry association with sales representatives and brokers in the Ottawa area.
The OREB website is www.ottawarealestate.org
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** Private rental apartments with three or more units*
F = CMHC Forecast

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